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SUBJECT: REMITTANCES IN THE PACIFIC ISLANDS

¶1. Summary: Remittances play an often unacknowledged yet crucially important economic and social role in the South Pacific. In the face of domestic turmoil, rising unemployment, and limited labor mobility, remittances have become a near irreplaceable source of funds for large portions of the population, particularly the poor and vulnerable. The sources and mechanisms of remittances vary significantly. Half of all Tongans live and work aboard in well-established communities; Kiribati and Tuvalu each are home to more than a thousand trained seafarers who man ships across the globe; and Fiji has seen significant numbers of skilled laborers leave in the wake of a series of coups to seek greener pastures abroad. The long-term sustainability of remittances as a social and economic buffer is unclear, as family ties weaken and immigration opportunities shrink. End summary.

Forms of Remittance

¶2. The most common means of making remittances is through cash, postal orders, and checks. In years past, remittances often took the form of goods either unavailable in the home country or only at prices substantially higher than abroad. The shift to cash has made documenting remittance flows more difficult as informal channels have developed and flourished. One source estimates that undocumented cash remittances to Tonga add another 34%-40% to the official figures. Undocumented remittances usually take the form of family and friends hand-carrying cash into the country, particularly during holidays. According to USP economist Prof. Mahendra Reddy, these routes are common and highly used, with some reports pegging the use of informal channels in Fiji to be around 33%.

¶3. Despite the relatively recent arrival of non-bank financial institutions such as Western Union in the region, they are increasing popular as a conduit for remittances. A World Bank study found that 50% of Fiji households and 69% of those in Tonga use such channels. By comparison, banks handle just 39% of documented remittances in Fiji and 58% in Tonga. One of the newest and lowest cost means are ATMs. Remitters abroad send recipients a card and PIN number to access off-shore accounts. According to the World Bank, this method, at only 0.8% in Fiji and 4.5% in Tonga, is still underutilized.

Who are the Remitters?

¶4. Generations of Pacific Islanders have left home in search of social and economic opportunity. Once abroad, these supposed "temporary" migrant workers have tended to become permanent.

Although hundreds of thousands have gone abroad, only six percent of households in Fiji and 13.5% in Tonga include a returned migrant. Despite the permanent character of much of this migration, a high percentage of such workers retain their commitments to family and communities in their countries of origin. Indeed, Pacific migrants often aim to benefit and support the family at home. This is in contrast to the rest of Asia, where remittances are saved or invested with an eye to the eventual return home of the migrant. Currently, a large portion of remittances in the Pacific is used for consumption. Investment is occurring, but primarily for education and human capital development, such as creating opportunities for others to migrate.

Tonga: a Transnational Family

15. Remittances have grown into an overwhelmingly important element of the Tongan economy. According to IMF data estimates that Tonga's remittance receipts total USD 90 million per year, equivalent to 40% of its GDP. This enormous inflow reflects the large number of historically well established Tongan migrant communities overseas, particularly in Australia, New Zealand, and the United States. These communities maintain close ties with the homeland, forming what one Asia Development Bank (ADB) report calls a "transnational corporation of kin" that helps perpetuate a strong and secure migrant-homeland relationship. In this context, remittances are not seen as handouts to needy family members at home but more as a collective, cultural, family investment in human capital. This is the basis for the longevity of remittances with respect to migrants' time spent out of country, and the ADB finding that distance does not degrade remittance amounts.

16. Studies estimate that 60% of all Tongan households have at least one migrant worker abroad, 90% or more of all households receive

SUVA 00000503 002 OF 003

remittances in many villages. The ratio of remittances to GDP in Tonga has increased dramatically in the past decade. In 1997 it was about 23%, in contrast with today's 40%. By comparison, Samoa started at 17% in 1997 and is now around 25%. The difference in growth rates can be accounted for, in part, by domestic growth rates and the availability of employment. Samoa has had relatively successful economic reforms in the interim, while Tonga's economy has lagged behind.

Fiji: the Political Root

17. In absolute terms, Fiji receives the most remittances in the region. Growth in remittances in the past decade has gone up significantly. In 1997, an estimated USD 41.4 million, equivalent to 2% of GDP, was remitted to Fiji according to Fiji Government and IMF data. The 2000 coup, however, spurred a renewed exodus of trained, educated, and skilled workers, primarily Indo-Fijians, resulting in a dramatic jump in remittances. In 2000, USD 43.9 million was remitted, growing to USD 82.5 million in 2001, and exploding to USD 183.9 million in 2005, the equivalent of almost 7% of GDP. The domestic turmoil of the current coup has continued the trend of skilled workers looking for greener employment pastures.

18. Another contributing factor to the rapid growth in Fiji remittances has been the surge in UN peacekeeping assignments, security force hiring, and British military recruitment, predominantly taken up by ethnic Fijians. A recent study estimates that one third of all households have one migrant worker overseas, and 43% of all households receive remittances, a definitive shift from a decade ago. These surges in migration and resulting remittances are significantly different from the patterns in other countries like Tonga, which have had steady, constant remittance patterns for as much as four decades.

Kiribati and Tuvalu: Shipping Out

19. The isolation and very limited domestic economies of Kiribati and

Tuvalu make the importance of remittances to their populations particularly significant. The Kiribati Maritime Training Institute was established in 1973; the Tuvalu Maritime Training Institute in ¶1979. Through their graduates, both have secured steady streams of remittances for their respective island communities. Well trained, IMO-certified seafarers man merchant ships throughout the world, typically serving one-year renewable contracts and accounting for the majority of their nations' remittance totals. In Kiribati, these seafarers annually remit USD 11.5 million, according to IMF statistics the equivalent of some 14% of the country's GDP. On average, these amounts have remained fairly constant over the past decade. They represent unique and irreplaceable contributions to the well being of thousands of island families.

The Impact of Remittances

¶10. The 2006 World Bank report "At Home and Away" finds that remittances contribute positively to social stability and economic development of the Pacific Island nations, particularly in helping reduce overall poverty. In Fiji, the average income of the poorest 20 percent of the population increases 82% when remittances are added in according to the World Bank reports. In Tonga, the effect is even more dramatic, with a 639% increase. Other studies have also found a positive effect on households with access to remittances, particularly in areas of education, health, small business engagement, and savings. Some negative effects have also been noted, however. Most prominent is the contributing effect to brain drain.

Comment

¶11. For the current pattern of remittances in the Pacific to go on providing relief, there needs to be continual and new migration, but unskilled labor opportunities in countries such as Australia, New Zealand and the United States have declined in recent years. Greater demand for skilled labor and tightened immigration rules are expected to further suppress already relatively low labor mobility for the PICs. The World Bank argues that this needs to be addressed, as unskilled labor mobility directly reduces poverty, even in greater proportion than trade liberalization. To the degree that

SUVA 00000503 003 OF 003

opportunities for island labor can be found in receiving countries, remittances can remain a fundamental underpinning of the PIC economies for the foreseeable future, as efforts are made to expand the PIC's economic base and link them better into the global trading system.

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